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SUBJECT: PORT OF HALIFAX GRAPPLES WITH COMPETITION

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¶1. SUMMARY: Following Danish-owned Maersk Sealand's February decision to eliminate Halifax as a port of call on its last remaining shipping line, the continued viability of the Port of Halifax in relation to its U.S. competitors is again being called into question. While Halifax Port Authority officials continue to tout growth in cruise line stops and container cargo as signs of positive change, it is unclear whether this growth is a result of changing external circumstances or a result of improved competitiveness. Observers suggest that the Maersk Sealand pullout may indicate that the former is perhaps more accurate, leading some to question the future economic success of the Port of Halifax. END SUMMARY.

¶2. Fingers are pointing every which way in Halifax following the news that shipper Maersk Sealand has decided to eliminate Halifax from its Med-Gulf line's port calls, having previously discontinued the North Atlantic line in April 2003. Local 269 of the International Longshoreman's Association blames Canadian National (CN), the only rail service provider at the port, for inefficient shipping of containers, but CN officials counter that high labor costs and low productivity are to blame for the pull-out. Maersk Sealand, on the other hand, is staying mum on the exact reasons for the departure, citing higher operating costs and vessel charter rates as an explanation. Maersk Sealand represented 17% of Halterm's (one of the two container piers in Halifax) annual container volume and 5% of all Halifax container volume.

¶3. This pull out may be yet another signal that the Port of Halifax is facing serious challenges to its position as a major contender on the Eastern seaboard, yet the Halifax Port Authority continues to emphasize growth and expansion in the amount of traffic coming through Halifax. Containerized cargo saw a record year in 2003 with a total of 4.6 million metric tons (MT) of containerized cargo moving through Halifax, and 2004 saw only a minor decrease at 4.5 million MT. A record 122 cruise vessels stopped in Halifax in 2004 with over 210,000 passengers spending between C$14 and $16 million in the city. These cruise vessels included two of the world's largest, Cunard's Queen Mary 2 and Royal Caribbean's Voyager of the Seas.

¶4. With the concern over the port's future, local port authorities are studying the impact of several global trends. They cite major up swells in Chinese exports to North America that have put severe pressure on West Coast ports like Vancouver and Long Beach, leading to significant backlog of container ships. This has led certain shipping companies to consider Halifax as an alternative port. Although it adds two weeks to the shipping time and increases costs by an estimated 35%, the alternative is a three-week wait in Vancouver. Similarly, the New York-New Jersey port is currently in the midst of a massive dredging project designed to give the port post-panamax (ships with capacity of over 4000 20-foot container equivalent units, or TEUs) capacity. This construction is not slated for completion until 2009-2011. In the meantime, Halifax is the only post-panamax capable port north of Virginia. However, as both Vancouver and New York-New Jersey expand their capacities and complete their construction projects, they will be able to recapture most, if not all, of this shipping traffic leaving Halifax in the cold.

¶5. Halifax's existing post-panamax capacity gives it the potential to participate in the "hub and spoke" trend in international shipping, where the increasing size of ships makes it more economical to make fewer stops at "hub" ports and ship cargo via rail, road, or regional shipping lines to their destination markets. Post-panamax ships are also making it cheaper to run up the Suez Canal from Asia, through the Mediterranean, and across the Atlantic, where Halifax is the first potential port of call. Since it is approximately two days faster to off-load cargo in Halifax and ship it via rail to the U.S. Midwest than it is to take the cargo via sea to a closer port, Halifax is an attractive first port of call for time-sensitive shipping. However, it is also six to seven times more expensive to ship via rail. Given the fact that most containerized cargo is price -- not time -- sensitive Halifax's attractiveness is heavily reliant on the cost and efficiency of onward transport from Halifax. Although CN has made efforts to keep its prices down, the restructuring it implemented in 2003 reduced the number of train departures per day from four to two and resulted in a backlog of off-loaded containers. The irony is evident: in order to keep down its prices and attract more price-sensitive cargo, it has decreased its efficiency and

jeopardized its existing time-sensitive market. At the same time, however, CN counters that port workers are inefficient, an allegation, observers note, that has some substance. Halifax sits well back compared to other North American ports in terms of the number of TEUs off-loaded per crane per hour, although it is more efficient in its dockyard organization. Thus, analysts suggest that there are improvements to be made in both the off-loading and rail-shipping aspects of the Port of Halifax.
¶6. Not only is Halifax challenged for its spot in the international hub and spoke network, it is fighting to hold its own in the competition for national shipping as well. Canada's second largest port, Montreal, saw growth of 11.2% in containerized traffic in 2004, an increase of 1.1 million MT, despite the fact that Montreal is not post-panamax capable; the large ships are incapable of navigating the St. Lawrence River. Halifax claims that Montreal is able to maintain this growth in large measure due to subsidized federal government services such as river ice breaking, unnecessary in coastal ports. Officials from the Halifax Port Authority have also expressed dismay at how little of the federal money for security improvements came to them and are lobbying the federal government to receive equal levels of funding, which Halifax could then put toward port development and improvement.

¶7. Another factor in assessing the long-term competitive position of the port of Halifax is in its corporate structure. Some local analysts suggest that the character of the ownership, operation and control of port operations stymies the port's ability to adequately attract more business. Halifax has two container terminals each leased by separate, privately-owned corporations. The first is Halterm, which is owned by the Halterm Income Fund and jointly managed by CN and a private Canadian shipping company, Clarke Transport; the second is CERESCORP, which is owned by Kristos Kritikos of Chicago. These two corporations lease the facilities that are owned by the locally managed Halifax Port Authority, which also provides leadership to stakeholders, and has a mandate to develop new business.

¶8. The situation is further complicated by the existence of four different labor unions: the International Longshoreman's Association (local 269), the Checkers Union, the Maintenance and Gear Men's Union, and the Watchmen's Union. Cooperation with CN is also important both for the continued viability of existing terminals as well as the construction of a third terminal sometime in the future. The Halifax Port Authority has spearheaded the Smart Terminal Initiative to provide for more consistent service and increased cooperation between the different levels of government. However, local analysts note that there are still many obstacles to overcome in this area.

¶9. An addition factor influencing growth of the port is the fact that neither Halterm nor CERESCORP can use their land and facilities as collateral on credit for capital and investment projects. These companies also pay charges on gross revenue (5% on the first $60 million) to the federal government and must have their business plans approved by the federal government. The local argument is that this requirement prevents a long-term commercial vision, limits profitability while maximizing the return to Ottawa, and discourages regional reinvestment for the future.

¶10. COMMENT: Port stakeholders and industry analysts conclude that the Port of Halifax is at a crossroads in that it has a limited window of opportunity to capitalize on changing trends in international shipping. It can either establish itself as a less-profitable regional port, or make significant investments to present itself as a "hub" port in the new hub and spoke system. The recent pull-out of Maersk Sealand has local analysts suggesting that Halifax is slipping behind its U.S. eastern seaboard competitors in terms of marketing itself, and that any gains in container traffic can be attributed more to external circumstances (backlog and construction in other ports, for example) and not an increase in efficiency or competitiveness in the port itself. While the Port of Halifax is making important steps towards the goal of establishing itself as a hub port of call, most observers agree that the competition will be fierce. END COMMENT.

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